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SUBJECT: EU ENERGY SECURITY STRATEGY SEMINAR

REF: BRUSSELS 01761

¶1. (SBU) Summary. Participants in a December 1 EU Presidency seminar in Paris on energy security concluded that EU goals on energy security, energy efficiency, and the fight against climate change are mutually reinforcing. The financial crisis and economic downturn has boosted EU solidarity and justifies a greater EU leadership role in coordinating investment and infrastructure improvements. Achieving energy security requires big money, political sensitivity, and dialogue to create a stable legal framework that minimizes risks of supply and demand shocks. All agreed the EU should speak with one voice in relations with non-EU suppliers and transit countries, though how to get there was unclear. End summary.

¶2. (SBU) Economic, development, and industry ministers from France, Italy, Lithuania, Sweden, Poland, Greece, and the Czech Republic discussed strategy options for a common EU energy security policy at the December 1 French EU Presidency seminar. Key speakers included Malcom Wicks, U.K. Prime Minister's Special Representative on International Energy Issues; Nobuo Tanaka, Executive Director, International Energy Agency; Plutarchos Sakellaris, Vice-President, European Investment Bank; Andris Piebalgs, European Commissioner for Energy; Anne Laperrouze, European Parliament Member and Reporter of the Second Strategic Energy Review. Industry majors (Total, RTE, E.ON Rhurgas, Dow, Dalkia/Veolia) participated. Three round-table discussions focused on the EU's long-term security of supply, energy crisis prevention and management, and member states' contribution to European energy security.

#### EU VISION OF ENERGY SECURITY

¶3. (SBU) Participants agreed that policies for energy security, energy efficiency, and the fight against global warming are mutually reinforcing. France's Grenelle measures on environmental protection, the EU Strategic Energy Review, the Energy-Climate Package, and the ultimate goal of a single, integrated European energy market comprise a coherent policy foundation with concrete targets. The vision should not be shaken by the financial crisis or recession. Instead, there is an opportunity to integrate structural policies such as energy security initiatives into stimulus packages and EU macro-economic policies. French State Minister for Sustainable Development Borloo heralded the "energy transition" of the twenty-first century that will bring far reaching long-term changes in production and consumption modes.

#### INVESTMENT

¶4. (SBU) In the short term, the financial crisis and economic recession will impact energy investment. Low oil prices mean inadequate rates of return for new projects. The real issue is medium term investment as "the era of cheap oil is over." If investors take on significant renewable energy (RE) or nuclear projects, they need EU-wide regulatory predictability and transparency, IEA DG Tanaka concluded.

#### INFRASTRUCTURE PRIORITIES

15. (SBU) General consensus emerged on infrastructure priorities taken from the EU Energy Security and Solidarity Action Plan of the Second Strategic Energy Review. Key areas are: electrical interconnections and new supply corridors, external energy relations, oil and gas stocks and crisis response solidarity mechanisms, energy efficiency, and the best use of EU's indigenous energy resources. Participants also supported the Commission's infrastructure aims (reftel), notably the need to build up links with the Baltic countries. The Deputy Minister of Economics for Lithuania stressed that "energy transition" means reconstruction of its internal electricity grid and network strengthening, at a projected cost of 1.7 billion euros. Other urgent priorities include an EU LNG action plan and addressing the rising demand for diesel fuel that is straining European refining capacity.

16. (SBU) Total, Dow, and Polish and French transmission system operators argued that EU project development should consider relative costs, flexible contracts, and exploiting sources where they make sense. Notable problem areas relate to the establishment of sufficient gas volume and transit conditions for the southern corridor, social acceptability for high voltage lines, windmills, and nuclear strategies in Northern Europe.

#### ENERGY EFFICIENCY

17. (SBU) Discussion on efficiency focused on energy conservation measures, buildings, energy labeling, and cogeneration. The EIB Vice-President said equity would generally be available in Europe for the energy sector. In 2009-2020, the EIB's energy budget would remain at its current 6 billion euros p.a., with 20 percent earmarked for RE projects. (Note: We assume in real terms. End note.) Several financial organizations and the EIB are proposing a new financing initiative for ECOFIN consideration that would help

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mobilize large-scale capital markets funding for projects promoting energy efficiency, the clean use of fossil fuels, combined heat and power, and renewables. Attendees stressed that regulatory measures aimed at energy efficiency must not translate into higher prices for consumers. Energy must be efficient and affordable.

#### ROLE OF EU

18. (SBU) Former IEA Director Claude Mandil noted that member state concerns over foreign ownership and energy dependence were not raised during the seminar. EU leadership in energy security is needed to promote coherence among rules, procedures, safety, and security regulations, including the nuclear sector. Tanaka spoke of a "Green New Deal." (Comment: On the margins, Tanaka told us the U.S. needed to convince China that the new green economic development model was commercially viable. If demand of emerging economies shifts to RE and clean technologies, industry and investment will follow. Setting a carbon price would incite investment in carbon capture and storage technologies. End comment.) Participants agreed the EU should map out infrastructure projects in RE production to ensure indigenous energy sources are maximized, and a fair balance among long-term interests is achieved. There is nothing wrong with imports or interdependence, it's a question of minimizing risk, Mandil concluded. (Comment: In an embassy follow-up meeting with Mandil on December 10, he expressed deep-seated doubts about solidarity mechanisms, citing the Germans and the Czechs who see some member states as energy freeriders who fail to take adequate budget measures to build up their energy sectors. End comment.)

#### EU EXTERNAL RELATIONS

19. (SBU) On Russia, an expert from the EU-Russia Center said too much political pressure is counterproductive. Russia feels threatened by EU efforts to diversify its clients. Export conditions dictate that Russian gas must be sold on the European market. By 2012 Russia will face reduced export capacity owing to rising domestic and emerging economy demand, maturing old fields, and delays in the Shtokman gas project. Total CEO De Margerie clarified that Russia is both a large consumer and exporter. Helping the Russians become energy efficient and encouraging

investment in the EU are good moves. De Margerie believes it is vital the EU go beyond import-export contracts, to pursue exchanges in research and development with Russia. The EU needs to speak with one voice when dealing with third-party countries such as Russia.

#### POLITICAL CHALLENGES

¶10. (SBU) De Margerie urged prudence in public statements on oil market issues, saying EU leaders make matters worse by "unjustified declarations" regarding terrorist threats and "crisis" that only fuels market anxiety. He reminded participants there have been very few supply interruptions in Europe in the previous decades. He is more worried about maintaining current oil production capacity, which is near its maximum level because access is increasingly difficult and costly. EU Leaders should promote a technical dialogue with consumers, producers, and international oil companies. Minister Borloo said the EU must articulate its EU energy security strategy. Public action is critical to promote social acceptability but also since the energy market "will not regulate itself".

#### EU CZECH PRESIDENCY

¶11. (SBU) In 2009, the EU Czech Presidency intends to include infrastructure improvements, energy security, and solidarity mechanisms in conventional energy sources among its priorities. Flexibility is key in the event of supply disruptions, the Czech Deputy Minister for Industry and Commerce said. Part of the solution is in fostering arrangements with the Caspian countries and key transit countries (Ukraine and Belarus), as well as continued dialogue with the Russians.

¶12. (SBU) Comment: The one-day seminar was largely a brainstorming session on how to get Europe's energy house in order, with lots of talk about the need for a medium and long term investment and regulatory framework that will facilitate "energy transition." Although solidarity and interdependence were the bywords, the Lithuanian Deputy Minister's focus on the cost of network upgrades needed to achieve his vision of "solidarity" was a reminder that speaking in one voice will remain a challenge.

#### PEKALA